

## **Continuous Improvement Initiatives for the state government of Virginia**

Virginia's reputation for sound financial management and governmental excellence derives from its leadership's willingness to embrace the challenges it has faced and to make thoughtful and, in many cases, tough decisions. The recommendations presented so far in this report are a continuation of this willingness to confront significant current challenges by implementing a series of actions to achieve savings in the short and intermediate term. However, if we as a state are to avoid the continual recurrence of such challenges and maintain our reputation for fiscal responsibility and management strength, Virginia's leadership must establish an enduring process of continuous improvement in the management of state government.

Essential components of this process should include:

- establishing the guiding principles upon which long-term governance must be based,
- setting a vision that will allow government to plan for the future on a horizon that is far longer than a single four-year gubernatorial term,
- managing performance and instilling accountability in a systematic manner over the short and long term,
- recognizing the importance of human capital in achieving long-term objectives by providing incentives to promote improved performance,
- instituting a means for consistently monitoring, measuring and reporting on these continuous improvement initiatives, and
- bipartisan leadership by the Governor and the General Assembly to implement and maintain these initiatives over the long term.

**In order to achieve these continuous improvement initiatives, the Commission recommends:**

- 1. The adoption of The Roadmap for Virginia's Future including the acceptance of a set of guiding principles and the development of a long-term vision that are embraced by the citizens of Virginia and their leaders. The Roadmap also must incorporate the implementation of the Performance Management System to translate the long-term vision into measurable and reportable objectives, and make state government fully accountable to its citizens.**
- 2. The establishment of an ongoing Council on Virginia's Progress to drive, measure, monitor and report on these continuous improvement initiatives. The primary focus of the Council will be the implementation of The Roadmap for Virginia's Future.**
- 3. The implementation/enhancement of workforce initiatives that provide incentives to promote the long-term improvement in the performance and productivity of agencies and individuals. Specifically, these programs must support, strengthen and motivate state employees and promote management excellence in all areas of state government. Responsibility for implementing and monitoring these programs should be given to the Secretary of the Administration and the Secretary of Finance.**
- 4. The forging of a bipartisan leadership effort between the Governor and the General Assembly to ensure the successful implementation of these continuous improvement initiatives over the long term.**

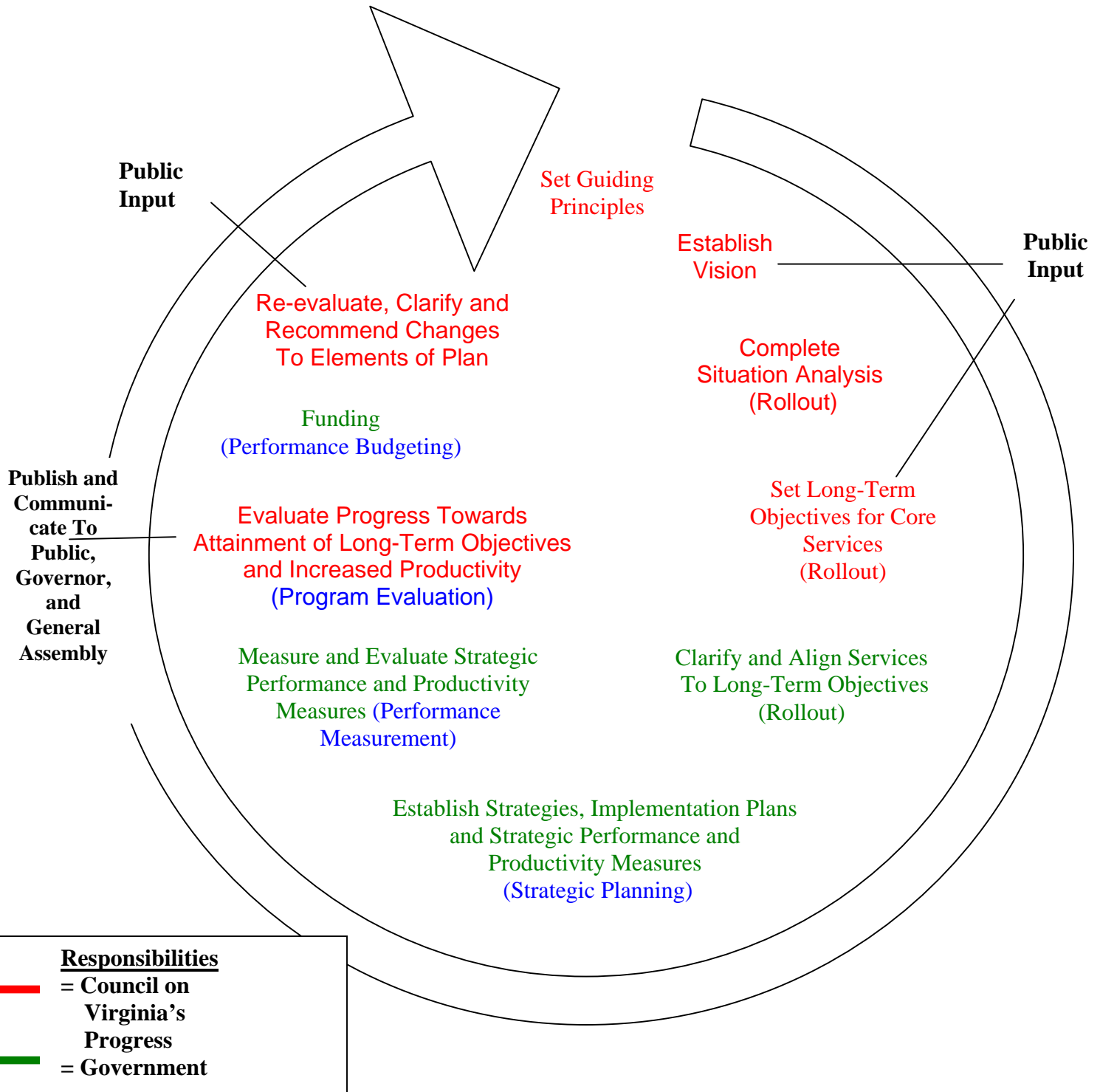
## **1. The Roadmap for Virginia's Future**

Virginia should adopt a process that will enable the Commonwealth to address long-term issues in a continuous and systematic manner. We call this The Roadmap for Virginia's Future and it is depicted in Chart A. In short, the Roadmap leads the Commonwealth based on certain guiding principles to establish priorities, develop strategies, and measure progress toward achieving predetermined goals over the long term. The Roadmap should involve significant public input and provide a means for regularly communicating to the public just how well or how poorly Virginia is achieving its goals. Overall responsibility for measuring, monitoring and reporting to the Governor, the General Assembly, and the public on progress by state government on the Roadmap will reside with The Council on Virginia's Progress.

As shown in Chart A, the Roadmap is a continual, never-ending process comprised of multiple steps. Primary responsibility for achievement of each of these steps falls to either The Council on Virginia's Progress (denoted in red) or state government (shown in green). Four of these steps (denoted in blue) are the four components of The Performance Management System that was established by Executive Order of Governor Allen in 1995 in an effort to make state government more accountable to the citizens of Virginia. The term Rollout is used in Chart A to denote those processes of the Roadmap that will require a multi-year approach to complete.

Chart A

*The Roadmap for Virginia's Future*



**Responsibilities**

= Council on Virginia's Progress

= Government

= Performance Management System

The key elements of this Roadmap in sequential order are:

- Set Guiding Principles. The principles selected should be clear, reflective of public sentiment and relevant to decision-making. The principles should be a guidepost at all points along the Roadmap. (See *Set Guiding Principles* below)
- Establish a Vision. This is an aspirational expression of a future condition that is desirable, even essential, to achieving and sustaining long-term objectives. It should project 10-15 years out what the public and its leaders consider to be vitally important for the long-term success of the Commonwealth and its citizens. (See *Establish a Vision* below)
- Complete Situation Analyses. These are baseline assessments of how the Commonwealth is performing in core services relevant to both its guiding principles and to other states. One methodology would be to perform Situation Analyses on the core services within the framework of a set of quality of life indicators. For example, in January 2000, the Department of Planning and Budget published the “State-Wide Quality of Life Indicators”. It identified nine areas of important core services—Community, Families, Safety, Education, Health, Economy, Environment, Government, and Technology. While the list may require some modification (for instance, the addition of Transportation), Situation Analyses on core services within each of these quality of life indicators would provide the basis for setting standards to measure and evaluate performance. In addition, these quality of life indicators could serve as the defining categories for the Vision.
- Set Long-Term Objectives for Core Services. After the major situation analyses are completed, measurable outcomes should be set and publicized that define the state’s commitment to the core services deemed most important to achieving the Vision.

- Clarify and Align Services, Policies, and Programs. Once the long-term objectives for core services have been set, agencies must align their outputs, policies and programs toward the achievement of these objectives driven by the Vision.

The next four steps in The Roadmap For Virginia's Future are the four components of the Performance Management System whose implementation across state government has been inconsistent and lacking in leadership. Taken as a whole, these components provide multiple tools and streams of information that can be used to manage strategy, improve performance and communicate results of governmental services. The success of The Roadmap depends upon the full implementation of the following four linked components of the Performance Management System across state government:

- Strategic Planning. Strategic planning is the systematic clarification and documentation of what an organization wishes to achieve and how to achieve it. The end product of strategic planning is a set of measurements constructed to evaluate performance on long-term objectives, current core service requirements, and productivity improvements. These strategic plans should be reflected in the Secretary and Agency Head Executive Agreements introduced by Governor Warner.
- Performance Measurement. Data that tracks the performance (resources used, work produced and intended results obtained) of individual agencies on achievement of their strategic plan must be systematically collected and analyzed.
- Program Evaluation. Based upon performance measurements, an evaluation will be undertaken of the progress made toward the achievement of long-term objectives and nearer-term initiatives. Annually, each Secretariat would provide a report to The Council on Virginia's Progress that measures performance and accounts for levels of success or failure within their agencies. These reports would be forwarded to the Governor, the

General Assembly and made available to the public. The reports would be in the form of a “balanced scorecard” that concentrates on a few critical objectives, balanced across measurements of quality, value, progress toward attainment of objectives, and productivity.

- Performance Budgeting. This is the systematic incorporation of planning, performance measurement and evaluation information into the budgetary process. Clearly, positive performance on essential measures should be a key determinant in programmatic decision-making within the budgetary process. Leadership in the Legislative and Executive branches of government should develop a process and timeline for incorporating this performance information in budget decision-making.

(See *The Performance Management System* below)

The final step in the Roadmap is:

- Plan Adjustment. Based upon public input and an evaluation of the results of the Roadmap, The Council on Virginia’s Progress would forward recommendations to the Governor each year detailing how the Roadmap might be improved.

### *Set Guiding Principles*

The Commission believes that the process of developing The Roadmap for Virginia’s Future and the implementation of each component of the Roadmap should be framed by a set of guiding principles. These guiding principles are necessary for the state services to achieve and maintain competitive advantage. By this, the Commission intends that state services should:

- 1) provide citizens with a quality of service better than could be provided by the private sector, and

- 2) provide enterprises with a quality of service that attracts and retains their operation within our state.

In order to propose a set of guiding principles, the Commission's work team reviewed the efforts of multiple commissions and study teams in Virginia and across the country. The proposed set of principles shown in Chart B provide a balanced approach for focusing vision, developing strategy, establishing service outcomes and evaluating productivity and other outcomes. While each are critical to achieving competitive advantage in our state services, none can stand alone as shown by their interrelationship in Chart B.

The guiding principles proposed by the Commission are:

- Stewardship- Decision-making based on long-term interests rather than short-term expediency and how value can be ensured for future generations. It also encompasses the preservation of natural resources, culture, history, structure and identity.
- Equity- Fairness in sharing the burdens and benefits of state policies. It includes matter such as formulas, tax structure, access to services, the response to regional differences and affordability.
- Effectiveness- This has two principal elements. The first is the attainment of desired results by measuring performance against stated objectives and the second is the linkage and alignment of vision and strategy with policy direction and desired results.
- Efficiency- The timely achievement of stated objectives in a manner that is both cost and resource effective.
- Satisfy Citizen Needs- The central guiding principle for state services is to satisfy the needs of Virginia's citizens. To do so, core services must be defined and delivered with the quality required to meet citizen needs.



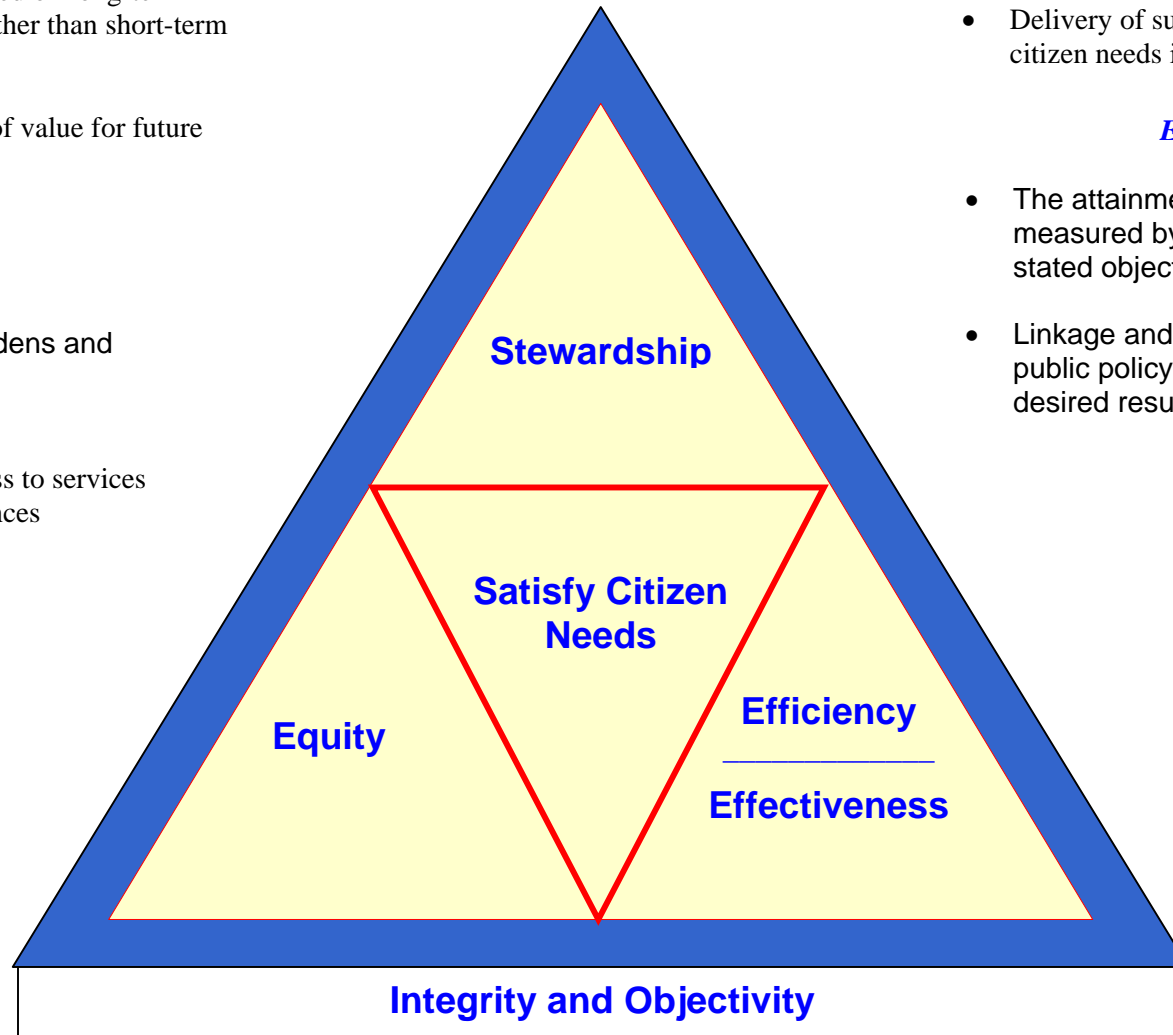
### Stewardship

- Preservation of natural resources, culture, history, structures, identity, etc.
- Decision-making based on long-term common interests, rather than short-term expediency
- Ensuring continuity of value for future generations

### Equity

- Fairness in the burdens and benefits
  - Formulas
  - Tax structure
  - Reasonable access to services
  - Regional differences
  - Affordability
- Equal Opportunity
- Collective and individual interests are balanced
- Public and private interests

## **Chart B** **Guiding Principles for State Services to Achieve**



### Satisfy Citizen Needs

- Citizens and their elected officials must define core services to address needs
- Delivery of sufficient quality to satisfy citizen needs in core services

### Effectiveness

- The attainment of desired results measured by performance against stated objectives
- Linkage and alignment of vision, public policy, outcomes, strategy, and desired results

### Efficiency

- Timely achievement of stated objectives in a manner both cost and resource effective

Finally, as shown in Chart B, the underlying foundation of all of these guiding principles must be integrity and objectivity. These guiding principles provide useful reference points that can help to guide all points along the Roadmap to Virginia's Future.

### *Establish a Vision*

In an era where states are becoming increasingly more competitive and competition for scarce resources is intensifying, a premium will accrue to states that are strategic in their focus. States that focus on identifying and achieving long-term objectives will increase the chances that their citizens will have a prosperous and fulfilling future.

Virginia does not have either a definable vision for the future or clear and comprehensive long-term objectives. While all executive branch agencies have developed strategic plans, these efforts have not been linked to statewide objectives and priorities. Without a long-term vision and measurements to assess progress against that vision, there is little accountability to the citizens, no method to ensure that services are provided in a timely and efficient manner, and an inability to assess whether certain services should remain the responsibility of government.

Many Virginians have come to realize in the last few years that it is crucially important for the Commonwealth to commit itself to goals that extend beyond the four-year term of Virginia's governor. This discussion has centered, for the most part, on whether Virginia's Governor should be eligible for reelection to consecutive terms and whether the Commonwealth should continue to be the only state that still prevents the consecutive reelection of a governor. While this is a constitutional question to be decided by the General Assembly and the citizens of Virginia, it is the position of this Commission that a maximum two-term governorship would be beneficial to the achievement of long-term objectives in the Commonwealth.

Regardless of how this issue is resolved, the Commission believes that it is critical for the Commonwealth to begin the process of developing a long-term vision, one that is owned broadly by its citizens and expresses their aspirations for Virginia over the next 10-15 years. As a means to efficiently garner this broad and hopefully bipartisan input to the Vision, the Commission recommends that the Governor and the General Assembly jointly convene a visioning summit, involving a wide selection of citizen leaders from around the state, to develop a vision statement for Virginia's future.

The Commission does not recommend a specific format for the Vision. However, the Commission does believe that a modified set of the quality of life indicators, as originally published in "State-Wide Quality of Life Indicators" by the Department of Planning and Budget in January 2000, could productively serve as a set of defining categories for the Vision.

### *The Performance Management System*

Virginia state government officially operates a "Performance Management" System" that is intended to ensure that citizens can see how their money is being spent and what they are getting for it, and receive the most cost-effective provision of services possible. It is a vital instrument in the establishment of results-oriented government that is accountable to its citizens for its performance.

The Performance Management System requires state agencies to articulate clear goals, to measure and report on success in achieving these goals and to incorporate this information into the budgeting process. To accomplish these functions, the system is comprised of four linked components—strategic planning, performance measurement, program evaluation, and performance budgeting.

Certain agencies, due to the leadership of strong agency directors, have implemented and used the Performance Management System to make considerable progress. Their directors have engaged in a serious strategic planning process, established goals that are embraced by the employees and conveyed to the customers, measured performance, and developed a set of incentives for their workforce that are tied to successful performance.

The Commission believes that the successful use of the Performance Management System has been the exception and not the rule in Virginia state government. Many agencies do not measure performance well nor engage in rigorous program evaluation. Moreover, information about performance is rarely incorporated into statewide and agency level decision-making about agency budgets and organization.

The Commission believes that the actualization of a sound Performance Management System in Virginia state government is not a question of resources. It can be accomplished by organizing and coordinating the various departmental, agency, and training resources that currently exist within Virginia state government. The three major tasks involved in making the Performance Management System a real and functioning part of state government are a) ensuring its adoption by all, not just some agencies; b) linking performance measures to the budget process; and c) developing a process for communicating performance-related information. As with each segment of the Roadmap, leadership is critical to the successful implementation of the Performance Management System.

A well functioning Performance Management System is essential if Virginia state government is to demonstrate a serious commitment to continuous improvement. Put simply, the development and implementation of a good Performance Management System is the way that state government can, on a day-to-day basis, ensure that the reforms recommended by this Commission are implemented and sustained by embedding them in the fabric of Virginia.

### *Implementation of the Roadmap for Virginia's Future*

Whenever change management is implemented, there is inevitable resistance until the value of the new actions can be validated and accepted. The Roadmap for Virginia's Future represents a significant change in how state government has operated and includes increased accountability for sustainable, short and long-term successful performance. The Commission anticipates that this new approach will engender resistance.

Implementation of the Roadmap for Virginia's Future therefore will require strong leadership from both Governor Warner and the General Assembly, as well as the focused effort's of the Council on Virginia's Progress. Moreover, due to the complexity of this task, implementation of the Roadmap will require a multi-stage and multi-year process.

It is the Commission's recommendation that the Council for Virginia's Progress be established, the guiding principles be set and the visioning summit occur as soon as practical during 2003. However, taking the multi-faceted Vision and translating it into public policy with detailed implementation plans will require substantial time and effort. The Commission recommends that the Council for Virginia's Progress prioritize the defining categories of the vision and focus in order of priority on one-third of the defining categories in each of the next three years (see processes labeled Rollout in Chart A). In this manner, the most critical one-third of the Vision can be introduced into the Performance Management System during the first year and accountability begun. However, actualization of the Performance Management System by all departments and agencies should begin immediately and be incorporated within the next biennium budget with respect to the short-term initiatives recommended in this report.

## **2. The Council on Virginia's Progress**

The Commission believes that the implementation of the Roadmap would be greatly assisted by the establishment of an ongoing Council on Virginia's Progress. The Council would be a visible sign of Virginia's commitment to develop long-term objectives and make state government fully accountable to its citizens. The Council preferably should be created by joint legislation between the Governor and the General Assembly.

The purposes of the Council are the following:

- Determine a timetable for the phasing in of the Roadmap for Virginia's Future in consultation with the Governor and the General Assembly;
- Establish the guiding principles for The Roadmap for Virginia's Future;
- Complete Situation Analyses on all core services;
- Set long-term objectives for core services and monitor and critique progress against their achievement;
- Monitor implementation of the Performance Management System across state government;
- Provide meaningful information and opportunities for the public to actively engage, understand and critique the performance of state government, thereby creating a more informed and involved electorate;
- Evaluate with public input the processes of The Roadmap and recommend improvements;
- Manage the phasing in of the Roadmap for Virginia's Future.

The Council should be delegated sufficient authority to ensure that it can complete these responsibilities. Moreover, the Council may replace either wholly or in part the functions of certain other commissions and councils and utilize existing staffing.

The Council, as jointly constructed by the Governor and the General Assembly, should be bi-partisan and consist of members who have the following traits:

- Ability to understand the broad context of statewide planning and to think strategically
- Demonstrated independence and integrity
- Experience serving on boards or equivalent community service
- Ability to commit the personal time and energy necessary to support the effort
- Demonstrated skill as a team player
- Diversity (gender, race, geography, age, ideology)

The Council on Virginia's Progress should be comprised of members of the public, Executive Branch, and Legislature. The Council is essential for ensuring implementation of The Roadmap for Virginia's Future and establishing an enduring process of continuous improvement in the management of state government.

### **3. Workforce Initiatives**

The Commission believes that an essential ingredient to the successful implementation of these continuous improvement initiatives is a strong and appropriately motivated state government workforce. Based upon research conducted by this Commission which included multiple employee focus groups and a review of comparative statistics among states, Virginians can be very proud of their state workforce, both in its dedication to serving the citizens of Virginia and the quality of the work performed. In fact, Virginia state employees have been

loyal and committed workers even when the Commonwealth has not always rewarded them commensurately.

As we begin the 21<sup>st</sup> Century, it is time to refocus on workforce initiatives that support, strengthen and motivate state employees and promote management excellence in all areas of state government. This focus is especially warranted given the enormous leverage that it can provide. Virginia's 135,000-person state government workforce is the state's largest asset and increasing productivity only a few percent can have a tremendous impact on the state's financial health.

Officially, Virginia state government has developed and implemented a broader set of incentives than are typically found in public sector agencies. These incentives can take the form of increased flexibility, public recognition, and/or financial incentives. However, as is the case with the Performance Management System, the official policy is far distant from actual practice.

For example, the Commonwealth has a Pay for Performance Plan that could be used to make salary distinctions on the basis of performance, but the plan has never been funded or effectively implemented. In addition, the Commonwealth gives agencies the capacity to award performance bonuses, but many agencies do not have the necessary budgetary flexibility to do so. The Commonwealth does encourage employee recognition programs, but these programs are optional.

Alternatively, certain Non-General Fund agencies that do have the flexibility and resources to develop meaningful incentive programs have been able to create effective organizations and strong organizational cultures with the assistance of well-directed incentive programs. One example is the Virginia Retirement System's "Gainsharing: Linking Pay and Performance" incentive system. Briefly, the objective of this system is to attract, retain and reward good employees, and to support the agency's values and goals. Pay increases are based



on performance, making employees accountable by linking individual performance to departmental and agency strategic objectives.

The Commission recommends five related approaches to increasing the use of incentives for performance throughout state government.

- Increase Information- Information about incentives available and desired, and their importance to improved performance and government efficiency and effectiveness should be more widely disseminated throughout state government.
- Increase Utilization- Agency Heads should be required in their own performance contracts to design a plan for developing and then utilizing incentive programs that are linked to the agency mission.
- Pay for Performance- The Commonwealth should actualize a Pay for Performance system that recognizes individual, departmental and agency performance.
- Create an Incentive Funding Pool- The Governor and General Assembly should work to create and fund permanent incentives for high performance.
- Create Agency Level Incentives- The Commonwealth should reward high performing units at the agency as well as the individual level. There should be a system of incentives created to ensure that agencies that perform very efficiently, for example, can keep of the dollars that have been saved in reinvest in mission-related activities.

The Commission further recommends that responsibility for implementing/enhancing and monitoring these workforce initiatives be given to the Secretary of the Administration. The Secretary of Finance should assist the Secretary of Administration in addressing funding issues supportive of the workforce initiatives.

#### **4. Leadership:**

The successful implementation of each of these continuous improvement initiatives will require strong, consistent and multi-year leadership. Leadership will be required to overcome barriers to success, to motivate change, to reinforce and reward good performance, to communicate the Vision and insure alignment, and, when necessary, to make management changes when performance, or acceptance of the necessity for change, is lacking. This will be difficult and trying. It will take a deep conviction about the necessity to pursue these initiatives and a commitment by senior elected officials and others in our state to sustain these initiatives across administrations.

We believe success in implementing these initiatives can only come through a bipartisan leadership effort forged between Governor Warner and the General Assembly. Of particular importance is the cooperation that will be necessary between the Governor and the General Assembly to create The Council for Virginia's Future, a group that must be broadly representative of the multiple constituencies within the Commonwealth. Over the long term, however, given that all elected officials have potentially limited terms, the citizens of Virginia must take the ultimate leadership responsibility to ensure that these efforts are sustained over time by electing officials committed to their success.

Our Commonwealth has a long and successful track record of embracing and conquering challenges--a track record of which all Virginians can be proud. These challenges will continue however, and as is evident in the budget crisis we face today, may escalate over time. To maintain this remarkable record of success, Virginia must continually reevaluate how it prepares for and approaches these inevitable challenges.

The Commission believes that the continuous improvement initiatives recommended, led by The Roadmap for Virginia's Future, provide a strong, improved, and hopefully enduring template for managing the affairs of Virginia to maximize benefits for its citizens. Done properly, these initiative will elevate the performance of the state for the significant benefit of its citizens, mandate accountability in the actions of state government, motivate improved performance by state employees, make the Virginia more competitive, and allow the public to be more informed and thereby more able to voice opinions about the desired future of the Commonwealth.